

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

POWER INTEGRATIONS, INC.,)	
)	
Plaintiff,)	
)	
v.)	C.A. No. 04-1371-JJF
)	
FAIRCHILD SEMICONDUCTOR)	
INTERNATIONAL, INC., and FAIRCHILD)	
SEMICONDUCTOR CORPORATION,)	
)	
Defendants.)	

**NOTICE OF DEPOSITION AND SUBPOENA OF
SHAWN SLAYTON PURSUANT TO FEDERAL RULE OF CIVIL PROCEDURE 45**

PLEASE TAKE NOTICE that, pursuant to Rule 45 of the Federal Rules of Civil Procedure, Defendant Fairchild Semiconductor International, Inc. will take the oral deposition of Shawn Slayton, at the offices of Orrick, Herrington & Sutcliffe LLP, 1000 Marsh Road, Menlo Park, CA 94025, beginning at 9:30 A.M. on March 9, 2006, continuing day to day until complete.

NOTICE IS FURTHER GIVEN THAT the deposition will be recorded stenographically through instant visual display of testimony (real-time), by certified shorthand reporter and notary public or such other person authorized to administer oaths under the laws of the United States, and shall continue from day to day until completed. This deposition will be videotaped.

NOTICE IS FURTHER GIVEN THAT Mr. Slayton is instructed to produce documents, identified in the attached Subpoena, at the offices of Orrick, Herrington & Sutcliffe LLP, 1000 Marsh Road, Menlo Park, CA 94025, by 9:30 A.M. on March 6, 2006.

NOTICE IS FURTHER GIVEN THAT pursuant to the Federal Rules of Civil Procedure, Defendant Fairchild Semiconductor International, Inc. will serve upon Shawn Slayton a Subpoena in a Civil Case. Attached hereto as Exhibit A is a true and correct copy of that Subpoena.

ASHBY & GEDDES

/s/ Lauren E. Maguire

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Of Counsel:

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ORRICK, HERRINGTON & SUTCLIFFE LLP
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Menlo Park, CA 94025
Tel: (650) 614-7400

Dated: February 21, 2006

166860.1

EXHIBIT A

AO 88 (Rev. 1/94) Subpoena in a Civil Case

Issued by the
UNITED STATES DISTRICT COURT
 NORTHERN DISTRICT OF CALIFORNIA

POWER INTEGRATIONS, INCORPORATED,

Plaintiff,

SUBPOENA IN A CIVIL CASE

V.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND Case Number:¹ 04-1371-JJF

FAIRCHILD SEMICONDUCTOR CORPORATION, Defendants.

District of Delaware

TO: Shawn Slayton

SG Cowen & Co.

Four Embarcadero Center

San Francisco, CA 94111

☐ YOU ARE COMMANDED to appear in the United States District court at the place, date, and time specified below to testify in the above case.

PLACE OF TESTIMONY

COURTROOM

DATE AND TIME

☒ YOU ARE COMMANDED to appear at the place, date, and time specified below to testify at the taking of a deposition in the above case.

PLACE OF DEPOSITION

Orrick, Herrington & Sutcliffe LLP, 1000 Marsh Road, Menlo Park, CA 94025

DATE AND TIME

March 9, 2006 at 9:30 a.m.

☒ YOU ARE COMMANDED to produce and permit inspection and copying of the following documents or objects at the place, date, and time specified below (list documents or objects):

Documents described in accompanying Schedule A to Subpoena Duces Tecum to Shawn Slayton

PLACE

Orrick, Herrington & Sutcliffe LLP, 1000 Marsh Road, Menlo Park, CA 94025

DATE AND TIME

March 6, 2006 at 9:30 a.m.

☐ YOU ARE COMMANDED to permit inspection of the following premises at the date and time specified below.

PREMISES

DATE AND TIME

Any organization not a party to this suit that is subpoenaed for the taking of a deposition shall designate one or more officers, directors, or managing agents, or other persons who consent to testify on its behalf, and may set forth, for each person designated, the matters on which the person will testify. Federal Rules of Civil Procedure, 30(b)(6).

ISSUING OFFICER'S SIGNATURE AND TITLE (INDICATE IF ATTORNEY FOR PLAINTIFF OR DEFENDANT)

DATE

February 21, 2006

ISSUING OFFICER'S NAME, ADDRESS AND PHONE NUMBER

Bas de Blank, Orrick, Herrington & Sutcliffe LLP, 1000 Marsh Road, Menlo Park, CA 94025 650.614.7400

Attorney for Defendants Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation

(See Rule 45, Federal Rules of Civil Procedure, Parts C & D on next page)

¹If action is pending in district other than district of issuance, state district under case number.

AO 88 (Rev 1/94) Subpoena in a Civil Case

PROOF OF SERVICE

DATE

PLACE

SERVED:

SERVED ON (PRINT NAME)

MANNER OF SERVICE

SERVED BY (PRINT NAME)

TITLE

DECLARATION OF SERVER

I declare under penalty of perjury under the laws of the United States of America that the foregoing information contained in the Proof of Service is true and correct.

Executed on _____

SIGNATURE OF SERVER

ADDRESS OF SERVER

Rule 45, Federal Rules of Civil Procedure, Parts C & D:

(c) PROTECTION OF PERSONS SUBJECT TO SUBPOENAS.

(1) A party or an attorney responsible for the issuance and service of a subpoena shall take reasonable steps to avoid imposing undue burden or expense on a person subject to that subpoena. The court on behalf of which the subpoena was issued shall enforce this duty and impose upon the party or attorney in breach of this duty an appropriate sanction which may include, but is not limited to, lost earnings and reasonable attorney's fee.

(2) (A) A person commanded to produce and permit inspection and copying of designated books, papers, documents or tangible things, or inspection of premises need not appear in person at the place of production or inspection unless commanded to appear for deposition, hearing or trial.

(B) Subject to paragraph (d) (2) of this rule, a person commanded to produce and permit inspection and copying may, within 14 days after service of subpoena or before the time specified for compliance if such time is less than 14 days after service, serve upon the party or attorney designated in the subpoena written objection to inspection or copying of any or all of the designated materials or of the premises. If objection is made, the party serving the subpoena shall not be entitled to inspect and copy materials or inspect the premises except pursuant to an order of the court by which the subpoena was issued. If objection has been made, the party serving the subpoena may, upon notice to the person commanded to produce, move at any time for an order to compel the production. Such an order to compel production shall protect any person who is not a party or an officer of a party from significant expense resulting from the inspection and copying commanded.

(3) (A) On timely motion, the court by which a subpoena was issued shall quash or modify the subpoena if it

(i) fails to allow reasonable time for compliance,

(ii) requires a person who is not a party or an officer of a party to travel to a place more than 100 miles from the place where that person resides, is employed or regularly transacts business in person, except that, subject to the provisions of clause (c) (3) (B) (iii) of this rule, such a person may in order to attend

trial be commanded to travel from any such place within the state in which the trial is held, or

(iii) requires disclosure of privileged or other protected matter and no exception or waiver applies, or

(iv) subjects a person to undue burden.

(B) If a subpoena

(i) requires disclosure of a trade secret or other confidential research, development, or commercial information, or

(ii) requires disclosure of an unretained expert's opinion information not describing specific events or occurrences in dispute and resulting from the expert's study made not at the request of any party, or

(iii) requires a person who is not a party or an officer of a party incur substantial expense to travel more than 100 miles to attend trial, the court may, to protect a person subject to or affected by the subpoena, quash or modify the subpoena, or, if the party in whose behalf the subpoena is issued shows substantial need for the testimony or material that cannot be otherwise met without undue hardship and assures that the person to whom the subpoena is addressed will be reasonably compensated, the court may order appearance or production only upon specified conditions.

(d) DUTIES IN RESPONDING TO SUBPOENA.

(1) A person responding to a subpoena to produce documents shall produce them as they are kept in the usual course of business or shall organize and label them to correspond with the categories in the demand.

(2) When information subject to a subpoena is withheld on a claim that it is privileged or subject to protection as trial preparation materials, the claim shall be made expressly and shall be supported by a description of the nature of the documents, communications, or things not produced that is sufficient to enable the demanding party to contest the claim.

ATTACHMENT A

Pursuant to Federal Rule of Civil Procedure 45, Defendants Fairchild Semiconductor International, Inc., and Fairchild Semiconductor Corporation (collectively, "Fairchild") hereby requests that Shawn Slayton produce and allow inspection and copying of the following documents and things requested herein at the offices of Orrick, Herrington & Sutcliffe LLP, 1000 Marsh Road, Menlo Park, CA 94025, at the date and time specified in the attached subpoena in accordance with the Federal Rules of Civil Procedure (and the following Definitions and Instructions).

DEFINITIONS AND INSTRUCTIONS

A. In responding to the present subpoena duces tecum, you are required to furnish such information as is available to you, including but not limited to information in the possession of your agents, representatives, or any other person or persons acting on your behalf.

2. "Fairchild" as used herein refers to Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corp.

3. "Power Integrations" as used herein refers to Power Integrations, Inc. and its subsidiaries, divisions, affiliates, successors, predecessors, and any employees, officers, directors, attorneys, agents, associates, or representatives thereof.

4. "Power Integrations Patents" as used herein refers to U.S. Patent No. 4,811,075 (the "'075 Patent"), U.S. Patent No. 6,107,851, (the "'851 Patent"), U.S. Patent No. 6,229,366 (the "'366 Patent"), and U.S. Patent No. 6,249,876 (the "'876 Patent"), and all applications, continuations, continuations-in-part, divisionals, reexaminations, or reissues thereof and all foreign applications and patents which claim priority to any of the above.

5. The terms "person" and "persons" as used herein refers to both natural persons and legal entities, including, without limitation corporations, companies, firms, partnerships, joint ventures, proprietorships, associations, and governmental bodies or agencies. Unless noted otherwise, references to any person, entity or party herein include its, his, or her agents, attorneys, employees, employers, officers, directors, or others acting on behalf of said person, entity, or party.

1 6. “Document(s)” as used herein is used in its broadest sense and includes,
2 without limitation, the original and all non-identical copies (including drafts and those with any
3 notations) of all “documents,” “writings,” “recordings,” and “photographs” of the types
4 designated in Rule 34(a) of the Federal Rules of Civil Procedure and Rule 1001 of the Federal
5 Rules of Evidence, and includes materials in digital forms. The term “document(s)” includes but
6 is not limited to any book, pamphlet, periodical, letter, memorandum, diary, file, note, calendar,
7 newspaper, magazine, statement, bill, invoice, order, policy, telegram, correspondence, summary,
8 receipt, opinion, investigation statement or report, schedule, manual, financing statement, audit
9 report, tax return, report, record, study, handwritten note, drawing, working paper, chart, index,
10 tape (audio or visual), microfilm, data sheet, e-mail and all other electronic and digital forms of
11 communication, however produced.

12 7. “Thing” as used herein refers to any physical object other than a
13 “document.”

14 8. “Communication” as used herein refers to any contact, oral or
15 documentary, formal or informal, at any place or under any circumstances whatsoever whereby
16 information of any nature is transmitted or transferred, including, without limitation, a single
17 person seeing or hearing any information by any means.

18 9. “Concerning” as used herein refers to referring to, relating to, pertaining to,
19 relevant to, material to, embodying, evidencing, affecting, comprising, discussing, dealing with,
20 supporting, contradicting or otherwise considering in any manner whatsoever the subject matter
21 of the inquiry.

22 10. “Any” and “all” as used herein refer to and include the other; the terms
23 “and” and “or” shall each mean and include the other, and the singular form of any word and the
24 plural form of the word shall each mean and include the other.

25 11. If you object to the production of any document on the grounds that it is
26 protected from disclosure by the attorney-client privilege, work-product doctrine, or any other
27 privilege, you are requested to identify each document for which the privilege is claimed and give
28 all information required by applicable case law, including but not limited to the following:

- a. the name of the writer, sender, or initiator of each copy of the document;
- b. the name of the recipient, addressee, or party to whom any copy of the document was sent;
- c. the date of each copy of the document, if any, or an estimate of its date;
- d. a statement of the basis for the claim of privilege; and
- e. a description of the document sufficient for the Court to rule on the applicability and appropriateness of the claimed privilege.

LIST OF DOCUMENTS TO BE PRODUCED

1. All documents concerning the Power Integrations Patents, Fairchild, Fairchild's products, or this litigation.
2. All documents and/or notes concerning communications with Power Integrations, Power Integrations' employees, or Power Integrations' attorneys including, but not limited to, electronic mail.
3. All drafts of SG Cowen & Co.'s February 3, 2006 report on Power Integrations, attached as Attachment B.
4. All documents provided by Power Integrations or its attorneys to you.
5. All documents provided by you to Power Integrations or its attorneys.
6. All documents considered by you in preparation of SG Cowen & Co.'s February 3, 2006 report on Power Integrations, attached as Attachment B.
7. All documents relating to SG Cowen & Co.'s February 3, 2006 report on Power Integrations, attached as Attachment B.
8. All documents relating to Power Integrations' current litigation with Fairchild.
9. All documents relating to the identification of Power Integrations' competitors.
10. All documents relating to the determination of Power Integrations' market share.

1 11. All documents relating to all statements made in SG Cowen & Co.'s
2 February 3, 2006 report on Power Integrations, attached as Attachment B, including, but not
3 limited to, "we believe Fairchild's Power Switch likely infringes Power Integrations' IP, and we
4 think that these products currently cause POWI to forego approximately \$10 million per year in
5 sales," and "had the company not lost a large part of the Samsung business to Fairchild, POWI
6 would likely have grown revenue about 13% in 2005, as compared to 6% sales growth."

7 166860.1

ATTACHMENT B

United States

Semiconductors



February 3, 2006

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Power Integrations

Solid Q4 Results With Outlook Upside; Irresolute CEC Muddies Waters Near-term

Conclusion: Yesterday Power Integrations reported in-line Q4 sales and earnings. The March quarter mid-range sales outlook was above SG Cowen/Street expectations, and earnings guidance exceeded our forecast by a penny. We reiterate our bullish thesis on POWI shares, based on forthcoming worldwide energy efficiency initiatives that spur adoption of POWI's chips, together with an anticipated favorable outcome in the Fairchild lawsuit, where FCS may be forced to exit a large segment of the power supply converter IC market. Owing to steady profit growth, accelerating ROIC, and an attractive analog IC business model, we see 15-20% upside to POWI shares relative to the broader market over the next 12 months.

■ **Positives.** 1) Record company revenue in Q4 up 13% y/y 2) Unit shipment growth of 20% y/y implying market share gains 3) Ongoing GM expansion (up 160 bps q/q) owing to improved operating efficiencies; GM now expected to be ~50% throughout 2006 4) Anticipated share gains in mobile phone and cordless phone applications 5) Ongoing sales momentum derived from Linkswitch, Tinswitch and DPAswitch new product introductions

■ **As disruptive as it might be, the California Energy Commission (CEC) is still accepting commentary to amend new energy efficiency requirements.** On Monday, Jan 30th, the CEC held a "workshop" to receive comments on industry concerns regarding recently amended Appliance Efficiency Regulations (AER) for external power supplies and other electronics products. This is extremely perplexing to us, because the 2006 AER are now "on-the-books" law in California (ie-the law of the land). We are unsure if the CEC will cave-in to an 11th-hour plea from certain electronics manufacturers to push-out or amend the new energy efficiency laws.

POWI (02/02)	\$26.16	Revenue \$MM					
Mkt cap	\$803.1MM	FY	2005	2006E		2007E	
Dil shares out	30.7MM	Dec	Actual	Prior	Current	Prior	Current
Avg daily vol	349.1K	Q1	34.4	36.5	38.0	—	44.0
52-wk range	\$18.2-28.3	Q2	35.3	38.5	39.0	—	46.2
Dividend	Nil	Q3	36.5	—	45.0	—	47.5
Dividend yield	Nil	Q4	37.9	—	45.0	—	50.2
BV/sh	\$6.81	Year	144.1	165.0	167.0	—	187.9
Net cash/sh	\$4.26	CY	—	—	—	—	—
Debt/cap	NA	EV/S	—	—	—	—	—
ROIC (LTM)	20.3%	EPS* \$					
5-yr fwd EPS growth (Norm)	20.0%	FY	2005	2006E		2007E	
		Dec	Actual	Prior	Current	Prior	Current
		Q1	0.15	0.15	0.16	—	0.25
		Q2	0.16	0.16	0.18	—	0.27
		Q3	0.18	0.27	0.26	—	0.28
		Q4	0.18	0.27	0.26	—	0.32
		Year	0.68	0.85	0.86	—	1.12
		CY	—	—	—	—	—
		P/E	—	—	30.4x	—	23.4x

*Adjusted EPS excludes amortization of deferred stock comp and intangibles, and other non-recurring gains and losses

Please see addendum of this report for important disclosures.

www.sgcowen.com



Power Integrations

Power Integrations Prior forecast as compared to updated forecast

POWI 02-Feb-06 December Year-End (\$000s)						
	Prior Forecast			Current Forecast		
	Q4-E	Q1-E	2006E	Q4-A	Q1-E	2006
REVENUE	\$38,000	\$36,500	\$165,000	\$37,876	\$38,000	\$167,000
% Change Y/Y	13.2%	6.1%	14.4%	12.8%	10.4%	15.9%
% Change Q/Q	4.0%	-3.9%	NM	3.6%	0.3%	
TOTAL COGS	\$19,000	\$18,615	84150	\$18,526	\$18,810	\$83,310
GROSS PROFIT	\$19,000	\$17,885	80850.0	\$19,350	\$19,190	\$83,690
Gross Margin	50.0%	49.0%	49%	51.1%	50.5%	50%
R&D	\$4,200	\$4,200	\$17,400	\$4,048	\$4,200	\$17,400
% Sales	11.1%	11.5%	10.5%	10.7%	11.1%	10.4%
Sales & marketing	\$4,300	\$4,300	\$17,800	\$4,990	\$4,900	\$18,400
% Sales	11.3%	11.8%	10.8%	13.2%	12.9%	11.0%
G&A	\$4,400	\$4,400	\$15,400	\$4,801	\$4,900	\$17,300
% Sales	11.6%	12.1%	9.3%	12.7%	12.9%	10.4%
TOTAL OPEX	\$12,900	\$12,900	\$50,600	\$13,839	\$14,000	\$53,100
OPERATING PROFIT	\$6,100	\$4,985	\$30,250	\$5,511	\$5,190	\$30,590
Operating Margin	16.1%	13.7%	18.3%	14.6%	13.7%	18.3%
NET INTEREST	\$900	\$1,000	\$4,000	\$1,049	\$1,000	\$4,000
PRETAX PROFIT	\$7,000	\$5,985	\$34,250	\$6,560	\$6,190	\$34,590
% Sales	18.4%	16.4%	20.8%	17.3%	16.3%	20.7%
TAX PROVISION	\$1,470	\$1,257	\$7,193	\$1,107	\$1,300	\$7,264
Tax rate	21.0%	21.0%	21.0%	16.9%	21.0%	21.0%
ADJUSTED NET INCOME	\$5,530	\$4,728	\$27,058	\$5,453	\$4,890	\$27,326
Net Margin	14.6%	13.0%	16.4%	14.4%	12.9%	16.4%
DILUTED SHARES	31,000	31,400	31,750	30,654	31,000	\$31,625
EPS, ADJUSTED⁽¹⁾	\$0.18	\$0.15	\$0.85	\$0.18	\$0.16	\$0.86
EPS, GAAP	\$0.18	\$0.15	\$0.85	\$0.18	\$0.16	\$0.86

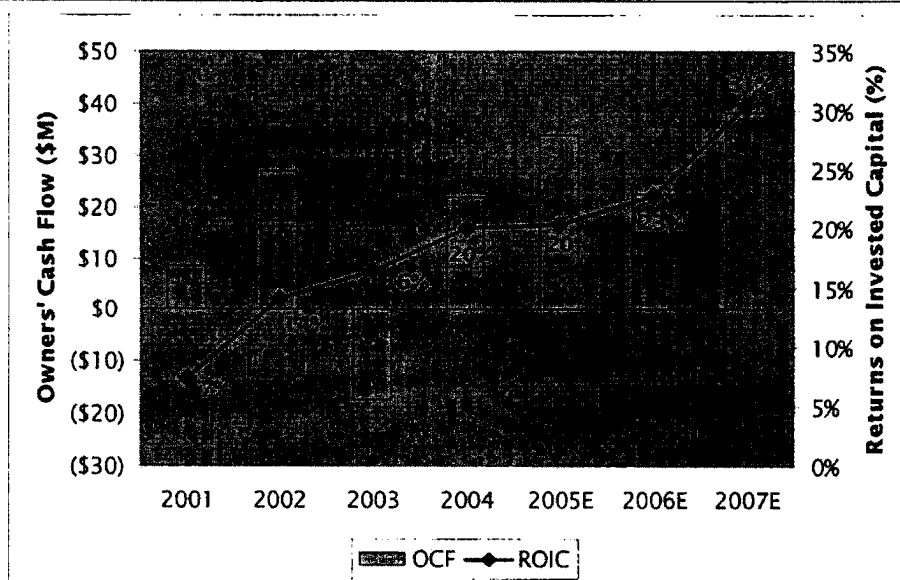
Source: SG Cowen & Co.



Cowen & Co.

Power Integrations

Power Integrations Owners' Cash Flow and ROIC Profile



Note: POWI's owner's cash flow in 2003 includes an approximately \$30M CAPEX expenditure related to the purchase of the Company's San Jose facility. Absent this expenditure, owner's cash flow in 2003 would have been approximately \$13M.

Source: Company Filings, SG Cowen & Co.



Baffling California Energy Commission (CEC) “Workshop” This Week Introduces Some Uncertainty to Nearer-term Catalysts

On Monday, January 30th, the CEC held a “workshop” to receive comments on industry concerns regarding the Appliance Efficiency Regulations for external power supplies and other consumer electronics products. This is extremely perplexing to us, because the 2006 Appliance Efficiency Regulations, (California Code of Regulations, Title 20, Sections 1601 through 1608) dated January 2006, were adopted by the California Energy Commission on October 19, 2005, and approved by the California Office of Administrative Law on December 30, 2005. **In other words, the updated Appliance Efficiency Regulations are now “on-the-books” law in California, aka the law of the land.**

As such, as it stands today in California, after July 1st 2006, it will be illegal to sell many electronics (such as cordless phones, mobile phones, and consumer/office electronics) that employ EXTERNAL LINEAR power supplies. This means that if electronics OEMs desire access to California's retail markets, they must adopt switching power supply solutions—either discrete or integrated—for a multitude of their products. **This is key, because Power Integrations' core business is integrated switching power supply ICs.** While many other energy efficiency initiatives of this type exist in the U.S. and around the world, the California regulatory initiative is a cornerstone catalyst for POWI shares over the next 6 months.

■ For now as it relates to the CEC, we're in a holding pattern

The CEC workshop solicited comments and proposed amendments related to:

- Should the requirement that external power supplies meet the efficiency standard at 230V be dropped?
- Should the active mode efficiency levels be decreased for low voltage (<15V) power supplies?
- Should the no load standby power level be increased to 1.5W for power supplies >50W with power factor correction?
- Should an exemption be created for external power supplies used for cordless phones?
- Should the effective date of the external power supplies standard be delayed beyond July 1, 2006?

The resolution of these matters is essential to our numbers for 2H06, which assume that the recently enacted law remains intact. At present, it is unclear to us when the CEC will make another “final” decision on this matter, but it must occur prior to July 1st.



Covatta & Co.

Power Integrations

Adoption of Standards for External Power Supplies is Mounting



Source: Company

In the U.S. there's an approximate annual market for internal and external power supplies of about 800 million. Of that number we estimate that approximately half of these devices are external linear power supplies. In California, with a 110 million annual power supply market, most new linear power supplies will be outlawed beginning in mid-2006, with tightening specifications beginning in 2008. Although POWI's ICs must always compete with discrete semiconductor power supply solutions, the California lawmaking alone drives an incremental \$25 million to POWI's revenue opportunity. Also, as other states follow California's lead (legislative activity is ongoing in Washington State, Rhode Island and Arizona) amid extremely high oil prices, this could add another \$180 million in total market opportunity in the U.S. alone. As other countries adopt similar measures (initiatives are gaining traction in Australia, Europe and China, as well as many other nations), the worldwide, incremental, energy efficient chip opportunity exceeds \$800 million.



Power Integrations

We Expect Power Integrations To Grow Market Share Through 2010

From 2005 to 2010, considering worldwide energy efficiency mandates driven by rising energy prices, we believe Power Integrations can grow its overall market penetration from 9.7% to 14.6% on a unit basis. With conservative end-market growth assumptions, we believe this secular market penetration—where Power Integrations' integrated switchers take share away from linear power supplies and discrete solutions—can drive low double digit revenue growth through 2010.

In 2010 we forecast \$254 million in company sales—a 12% 5-year revenue CAGR. To achieve this business growth, the company must increase its market penetration in some of the larger end markets by the amounts described below. We think these share gain assumptions are reasonable, especially considering the secular global trend away from linear power supplies. Also owing to die shrinks and packaging cost reductions, we believe Power Integrations' parts are becoming increasingly cost-competitive as compared to discrete switcher solutions, which should further stimulate product uptake.

2005E-2010E Power Integrations Market Penetration Estimates

Market	2005E Market Penetration (%)	2010E Market Penetration (%)
Desktop Computers	35	40
LCD monitors/TVs	16	20
Mobile Phones	13	20
DVD players	9	10
White Goods	6	9
Cordless Phones	0	15

Source: SG Cowen & Co.

Power Integrations' overall growth and share gains by end-market will be driven by:

- **Desktop Computers:** Owing to existing 1 watt standby power initiatives for PCs, Power Integrations already occupies meaningful share of the worldwide PC market. Because of the mature nature of the market, we expect POWI to grow its share only modestly over the next 5 years.
- **LCD Monitors:** LCD monitors/TVs are taking share from CRTs (where POWI does not play owing to the high switching frequency of the POWI chip), and as LCDs proliferate, POWI's business should benefit. Owing to the requirement for smaller form-factors (think 20-inch and below LCDs), we believe integrated solutions will be preferred over discrete component switching solutions.
- **DVD Players:** Because of the mature market nature of the DVD player market, we don't anticipate much secular growth, and we forecast modest unit growth for the market as a whole. However, as portable players proliferate, this may drive a migration toward switching battery chargers.
- **Mobile Phones:** Because of poor energy-efficiency, coupled with higher weight and larger size, legacy, linear mobile phone chargers are being replaced by electronic switchers. Linear mobile phone chargers will be illegal in California in the months following July (so a migration to switchers is mandatory), and we



Power Integrations

also expect Power Integrations to regain share at Samsung (100 million units where most already use switchers), when/if the company prevails in the Fairchild lawsuit.

- **White Goods:** Traditional white goods, such as washers/dryers, dishwashers, and refrigerators are migrating from analog control (remember the clicking timers) to digital interfaces, and this is driving adoption of POWI's ICs.
- **Cordless Phones:** At present most all cordless phones worldwide are accompanied by large, linear power supplies. However, we believe cordless phone chargers are in the cross hairs of government mandates in the U.S. and E.U., particularly because of the large unit volumes. Similar to mobile phones, linear chargers for cordless phones will be illegal in California in 2H06.

Power Integrations - Bottom-Up Model by End-Market

	2004	2005	2006	2007	2008	2009	2010	2011
Communications End-Market								
Units sold (in millions)	111.5	112.1	136.3	177.4	209.2	240.7	301.1	21.8%
ASP	\$0.38	\$0.36	\$0.34	\$0.33	\$0.32	\$0.30	\$0.28	
Total Revenue (in millions)	\$42.36	\$40.36	\$46.33	\$58.55	\$66.96	\$72.21	\$84.31	15.8%
Yr./Yr. Growth	NA	-5%	15%	26%	14%	8%	17%	
% of Total Revenue	31%	28%	28%	31%	32%	31%	33%	
Computer End-Market								
Units sold (in millions)	69.9	82.9	92.3	99.4	108.7	124.2	135.9	10.4%
ASP	\$0.43	\$0.40	\$0.38	\$0.36	\$0.34	\$0.32	\$0.30	
Total Revenue (in millions)	\$30.06	\$33.15	\$35.07	\$35.80	\$36.94	\$39.76	\$40.77	4.0%
Yr./Yr. Growth	NA	10%	6%	2%	3%	8%	3%	
% of Total Revenue	22%	23%	21%	19%	18%	17%	16%	
Consumer End-Market								
Units sold (in millions)	83.5	83.2	103.4	120.3	137.3	162.1	185.9	17.4%
ASP	\$0.54	\$0.52	\$0.49	\$0.48	\$0.47	\$0.46	\$0.45	
Total Revenue (in millions)	\$45.09	\$43.24	\$50.68	\$57.75	\$64.52	\$74.58	\$83.66	14.1%
Yr./Yr. Growth	NA	-4%	17%	14%	12%	16%	12%	
% of Total Revenue	33%	30%	30%	31%	31%	32%	33%	
Industrial End-Market								
Units sold (in millions)	19.2	26.2	31.4	35.3	41.0	45.0	46.4	12.1%
ASP	\$0.57	\$0.55	\$0.53	\$0.51	\$0.50	\$0.49	\$0.48	
Total Revenue (in millions)	\$10.93	\$14.41	\$16.64	\$17.99	\$20.49	\$22.06	\$22.26	9.1%
Yr./Yr. Growth	NA	32%	15%	8%	14%	8%	1%	
% of Total Revenue	8%	10%	10%	10%	10%	10%	9%	
Other Misc. End-Markets								
Units sold (in millions)	16.1	26.5	37.3	37.9	42.2	46.8	51.7	14.3%
ASP	\$0.51	\$0.49	\$0.48	\$0.47	\$0.46	\$0.45	\$0.44	
Total Revenue (in millions)	\$8.20	\$12.97	\$18.27	\$17.79	\$19.40	\$21.06	\$22.75	11.8%
Yr./Yr. Growth	NA	58%	41%	-3%	9%	9%	8%	
% of Total Revenue	6%	9%	11%	9%	9%	9%	9%	
Total Units Sold by POWI (in millions)	300.1	330.8	400.7	470.3	538.3	618.9	721.0	16.8%
Yr./Yr. Growth	NA	10.2%	21.1%	17.4%	14.5%	15.0%	16.5%	
Total Market Oppty. Units (in millions)	3,154	3,427	3,793	4,098	4,380	4,656	4,954	7.6%
Yr./Yr. Growth	NA	8.7%	10.7%	8.1%	6.9%	6.3%	6.4%	
POWI Market Penetration %	9.5%	9.7%	10.6%	11.5%	12.3%	13.3%	14.6%	
POWI ASP across end-markets	\$0.46	\$0.44	\$0.42	\$0.40	\$0.39	\$0.37	\$0.35	
Yr./Yr. ASP erosion	NA	-4.3%	-4.3%	-4.1%	-3.1%	-4.1%	-5.2%	
Total POWI Revenue (in millions)	\$136.6	\$144.1	\$167.0	\$187.9	\$208.3	\$229.7	\$253.7	11.9%
Yr./Yr. Growth		5.5%	15.9%	12.5%	10.9%	10.3%	10.5%	

Source: SG Cowen & Co.

Power Integrations

Comparable Company Analysis

Semiconductor Companies Comparable Valuation Table									
(\$ in millions, except per share data)		Price 2/2/06	Market Value (1)	Enterprise Value (2)	EV/Rev		P/E		
					CY05E	CY06E	CY05E	CY06E	
Advanced Analogic Technologies	AATI	\$15.13	\$709	\$585	8.6x	6.0x	NM	NM	34.9x
Amis Holdings Inc	AMIS	\$10.27	\$905	\$1,146	2.3x	1.9x	16.8x	14.3x	14.3x
Cirrus Logic	CRUS	\$8.33	\$734	\$505	2.8x	2.5x	44.3x	20.9x	20.9x
ESS Technology Inc.	ESST	\$3.65	\$145	\$38	0.2x	0.2x	NM	NM	NM
Genesis Microchip Inc.	GNSS	\$19.06	\$711	\$536	2.0x	1.7x	24.8x	19.6x	19.6x
Linear Technology Corp.	LLTC	\$36.32	\$11,325	\$9,483	9.2x	8.0x	26.7x	25.2x	25.2x
Maxim Integrated Products Inc.	MXIM	\$40.28	\$13,502	\$11,917	7.1x	5.8x	26.2x	21.5x	21.5x
Micrel Semiconductor	MCRL	\$14.51	\$1,278	\$1,137	4.5x	3.9x	40.3x	27.4x	27.4x
Microsemi Corp.	MSCC	\$31.01	\$2,095	\$1,982	6.4x	5.6x	39.6x	27.8x	27.8x
National Semiconductor	NSM	\$27.74	\$10,095	\$9,101	4.7x	4.3x	28.2x	25.1x	25.1x
O2Micro International Ltd	OIIM	\$12.13	\$490	\$358	3.4x	2.8x	60.7x	25.3x	25.3x
PIXELWORKS, Inc.	PXLW	\$4.58	\$218	\$220	1.3x	1.0x	NM	NM	NM
PortalPlayer, Inc.	PLAY	\$28.35	\$730	\$551	2.4x	1.6x	17.2x	15.3x	15.3x
Power Integrations	POWI	\$26.16	\$802	\$671	4.7x	4.0x	38.5x	30.3x	30.3x
SigmaTel Inc.	SGTL	\$10.50	\$405	\$286	0.9x	1.0x	8.0x	42.2x	42.2x
Semtech Corp.	SMTC	\$19.55	\$1,494	\$1,237	5.2x	4.7x	34.5x	28.5x	28.5x
Silicon Laboratories	SLAB	\$47.79	\$2,686	\$2,330	5.5x	5.0x	39.8x	33.6x	33.6x
ZILOG	ZILG	\$2.41	\$39	\$18	0.2x	0.2x	NM	NM	NM
Zoran Corporation	ZRAN	\$20.84	\$982	\$844	2.1x	1.8x	35.8x	24.5x	24.5x
AVERAGE					3.9x	3.3x	32.1x	26.0x	

(1) Market value is defined as the current stock price times the number of fully diluted shares outstanding.

(2) Enterprise value is defined as fully diluted market value plus debt, plus minority interests, less cash and cash equivalents.

Except for AMIS, ESST, GNSS, OIIM & PXLW, all ratios are based on SG Cowen estimates.

Source: First Call, Company Filings. SG Cowen & Co.

February 3, 2006



Power Integrations is Suing Fairchild Semiconductor. We Think POWI Will Prevail.

In 3Q03 Fairchild Semiconductor announced that it had commenced shipping its branded Power Switch ICs into certain battery charger platforms to accompany Samsung mobile handsets. Prior to this, Power Integrations garnered 100% of Samsung's handset charger business (100 million-plus units a year), where most all Samsung chargers are integrated switchers (vs. linear models). In Q404 after extensive diligence, Power Integrations' filed suit against Fairchild claiming patent infringement. We are inclined to think that the Fairchild case is similar in nature to prior litigation that POWI initiated against ON Semiconductor (then MOT) in 1999, wherein POWI was awarded monetary damages of \$32 million. The 1999 outcome was also a meaningful boon to POWI's competitive positioning within the industry.

At present, we believe Fairchild's Power Switch likely infringes Power Integrations' IP, and we think that these products currently cause POWI to forego approximately \$10 million per year in sales. We expect a favorable jury verdict in 3Q06, with POWI receiving both monetary damages and injunctive relief. As a point of comparison, had the company not lost a large part of the Samsung business to Fairchild, POWI would likely have grown revenue about 13% in 2005, as compared to 6% sales growth.

Power Integrations has two noteworthy intellectual property advantages over its competitors. One is circuit/system specific and the other is device structure specific. We believe that Power Integrations is the only company that can legally produce power supply controller ICs with as few as three terminals (pins), forcing competitors to use less efficient and more expensive "work-arounds" to accomplish similar functionality. Power Integrations' chips also make multiple uses of the same pins, lowering total pin count and packaging costs.

Power Integrations' products integrate a high-voltage MOS field-effect transistor (HVMOSFET) with extensive power supply controller circuitry. While forgoing the engineering explanation, it is desirable to construct an HVMOSFET having a high breakdown voltage and a low "on-state" resistance. To accomplish this, many companies utilize a BCDMOS manufacturing process, which enables a monolithic IC solution (high voltage and low voltage transistors on the same chip). However, monolithic chips employing this method are more expensive to manufacture, and competing ICs require more high voltage transistor silicon area. Here, Power Integrations uses a patented transistor structure founded on buried, multiple lateral conduction layers, which we believe offers an important cost advantage. In essence Power Integrations' IP allows for a more compact HVMOSFET transistor, manufactured using a standard CMOS process. This proprietary device structure, coupled with the ability to employ a standard digital CMOS process (5V one metal, one poly CMOS, using 11 masks at 3 micron) significantly reduces the chip area, which lowers costs by allowing more ICs per wafer. Power Integrations' device structure patents have been successfully upheld, most recently in the context of Infineon.



Competition Summary

Power Integrations faces competition on three fronts—from linear transformer power supplies, from discrete electronics switched-mode power supplies, and from vertically-integrated competitors seeking to mimic Power Integrations' products.

Linear power supplies (LPS). For low-power charger applications, LPS still dominate the worldwide market, due to historically low cost, and the absence of competition from an integrated chip solution. However, the advantages of the LPS have eroded considerably. Recently, the cost of a LPS has risen substantially due to increasing copper and iron prices. Also, the 2002 introduction of Power Integrations' LinkSwitch product offered the first cost-competitive alternative to low power linears. Here, we believe LinkSwitch has "category killer" potential. Due to the inherent size and efficiency benefits of integrated electronic switchers, we believe the secular decline experienced by LPS should accelerate dramatically over the next few years.

Discrete electronics switched-mode power supplies (SMPS). Non-integrated, or discrete electronics SMPS, have steadily taken market share from LPS over the past several decades, especially at higher power levels. However, these devices have a high parts count, and are less efficient than power supplies that employ power conversion ICs. In steady fashion, SMPS using power conversion ICs are proliferating. This is largely driven by the rise in discrete semiconductor prices as well as lengthening transistor lead times. In this context, Power Integrations' ICs are generally at price parity with discrete solutions, while offering easier designs and enhanced features.

(Not so) fast followers. Power Integrations is experiencing competition from hybrid chips (ICs with separate transistor die and controller die in the same package), as well as monolithic solutions similar to TOPSwitch. Current competitors include ON Semiconductor, ST Microelectronics, Fairchild Semiconductor, Infineon, and Philips. We believe that the most interesting competitors are Fairchild and ST Microelectronics, due to their level of chip integration and growing customer base. It is noteworthy that Fairchild purchased Samsung's Semiconductor Power Device Division in 1999, which enabled the company to gain some traction at Samsung and Samsung's merchant power supply vendors (e.g. Dong Yang).

Competitor	Product Family
Fairchild Semiconductor	Green FPS Family, FSDH0165 chip, hybrid and monolithic solutions, BCD MOS
ST Microelectronics	VIPer Family; 12A & 22A chips; monolithic solution
ON Semiconductor	GreenLine Family; monolithic solution;
Philips	GreenChip controller; requires external MOSFET, BCD MOS
Infineon	CoolSET Family;



Cowen & Co.

Power Integrations

Power Integrations Annual Adjusted Income Statement

POWI 02-Feb-06							
December Year-End							
(\$000s)	2001	2002	2003	2004	2005	2006E	2007E
REVENUE	\$94,095	\$108,184	\$125,706	\$136,636	\$144,134	\$167,000	\$187,882
<i>% Change Y/Y</i>	NA	15.0%	16.2%	8.7%	5.5%	15.9%	12.5%
TOTAL COGS	\$51,252	\$60,723	\$62,814	\$71,409	\$72,813	\$83,310	\$95,820
GROSS PROFIT	\$42,843	\$47,461	\$62,892	\$65,227	\$71,321	\$83,690	\$92,062
<i>Gross Margin</i>	45.5%	43.9%	50.0%	47.7%	49.5%	50.1%	49.0%
R&D	\$14,471	\$14,705	\$16,443	\$16,162	\$16,355	\$17,400	\$17,600
<i>% Sales</i>	15.4%	13.6%	13.1%	11.8%	11.3%	10.4%	9.4%
Sales & marketing	\$14,485	\$14,537	\$15,484	\$15,273	\$17,689	\$18,400	\$18,000
<i>% Sales</i>	15.4%	13.4%	12.3%	11.2%	12.3%	11.0%	9.6%
G&A	\$5,980	\$6,203	\$6,848	\$8,102	\$14,603	\$17,300	\$14,000
<i>% Sales</i>	6.4%	5.7%	5.4%	5.9%	10.1%	10.4%	7.5%
TOTAL OPEX	\$34,936	\$35,445	\$38,775	\$39,537	\$48,647	\$53,100	\$49,600
OPERATING PROFIT	\$7,907	\$12,016	\$24,117	\$25,690	\$22,674	\$30,590	\$42,462
<i>Operating Margin</i>	8.4%	11.1%	19.2%	18.8%	15.7%	18.3%	22.6%
NET INTEREST	\$1,749	\$1,665	\$1,002	\$1,054	\$3,367	\$4,000	\$4,600
PRETAX PROFIT	\$9,656	\$13,681	\$25,119	\$26,744	\$26,041	\$34,590	\$47,062
<i>% Sales</i>	10.3%	12.6%	20.0%	19.6%	18.1%	20.7%	25.0%
TAX PROVISION	\$2,930	\$4,103	\$7,033	\$6,377	\$5,141	\$7,264	\$9,883
<i>Tax rate</i>	30.3%	30.0%	28.0%	23.8%	19.7%	21.0%	21.0%
ADJUSTED NET INCOME	\$6,726	\$9,578	\$18,086	\$20,367	\$20,900	\$27,326	\$37,179
<i>Net Margin</i>	7.1%	8.9%	14.4%	14.9%	14.5%	16.4%	19.8%
AVE. DILUTED SHARES	28,991	29,503	31,812	32,414	30,792	31,625	33,250
EPS, ADJUSTED ⁽¹⁾	\$0.23	\$0.32	\$0.57	\$0.63	\$0.68	\$0.86	\$1.12
EPS, GAAP	\$0.23	\$0.32	\$0.57	\$0.63	\$0.68	\$0.86	\$1.12

(1) Adjusted EPS exclude amortization of deferred stock comp. and intangibles, and non-recurring gains/losses

Source: Company Filings, SG Cowen & Co.



Power Integrations

Cowan & Co.

Power Integrations Quarterly Adjusted Income Statement

POM 02-Feb-06
December Year-End
(\$000s)

	2004			2005			2006E			2007E		
	Q1-A	Q2-A	Q3-A	Q4-A	Q1-A	Q2-A	Q3-A	Q4-E	Q1-E	Q2-E	Q3-E	Q4-E
REVENUE	\$34,165	\$35,944	\$32,946	\$33,581	\$34,416	\$35,299	\$36,543	\$37,876	\$38,000	\$39,000	\$40,200	\$40,182
% Change Y/Y	17.4%	20.6%	-4.6%	4.0%	0.7%	-1.8%	10.9%	12.8%	10.4%	10.5%	18.5%	11.5%
% Change Q/Q	5.8%	5.2%	-8.3%	1.9%	2.5%	2.6%	3.5%	3.6%	0.3%	2.6%	5.0%	5.6%
TOTAL COGS	\$17,473	\$19,392	\$17,188	\$17,356	\$17,779	\$18,045	\$18,463	\$18,526	\$18,810	\$19,500	\$20,562	\$20,593
GROSS PROFIT	\$16,692	\$16,552	\$15,758	\$16,225	\$16,637	\$17,254	\$18,080	\$19,350	\$19,190	\$19,500	\$20,638	\$19,589
Gross Margin	48.9%	46.0%	47.8%	48.3%	48.3%	48.9%	49.5%	51.1%	50.5%	50.0%	49.0%	49.0%
R&D	\$4,152	\$4,088	\$4,096	\$3,826	\$4,098	\$4,104	\$4,105	\$4,048	\$4,200	\$4,400	\$4,400	\$4,400
% Sales	12.2%	11.4%	12.4%	11.4%	11.9%	11.6%	11.2%	10.7%	11.1%	11.3%	10.9%	10.9%
Sales & marketing	\$4,112	\$3,943	\$3,412	\$3,806	\$4,018	\$4,263	\$4,418	\$4,990	\$4,900	\$4,500	\$4,500	\$4,500
% Sales	12.0%	11.0%	10.4%	11.3%	11.7%	12.1%	12.1%	13.2%	12.9%	11.5%	10.9%	9.7%
G&A	\$1,579	\$2,049	\$2,382	\$2,092	\$2,777	\$2,933	\$4,092	\$4,803	\$4,900	\$4,600	\$3,500	\$3,500
% Sales	4.6%	5.7%	7.2%	6.2%	8.1%	8.3%	11.2%	12.7%	12.9%	11.3%	8.9%	7.6%
TOTAL OPEX	\$9,843	\$10,080	\$9,890	\$9,724	\$10,893	\$11,300	\$12,615	\$13,839	\$14,000	\$13,500	\$12,400	\$12,400
% Sales	28.8%	28.0%	30.0%	29.0%	31.7%	32.0%	34.5%	36.5%	36.8%	34.1%	28.7%	24.7%
% Change Q/Q	6.1%	2.4%	-1.9%	-1.7%	12.0%	3.7%	11.6%	9.7%	1.2%	-5.0%	-3.0%	0.0%
OPERATING PROFIT	\$6,849	\$6,472	\$5,868	\$6,501	\$5,744	\$5,954	\$5,465	\$5,511	\$5,190	\$6,200	\$9,600	\$12,189
Operating Margin	20.0%	18.0%	17.8%	19.4%	16.7%	16.9%	15.0%	14.6%	13.7%	15.9%	21.3%	24.3%
NET INTEREST	\$259	\$131	\$339	\$325	\$654	\$725	\$939	\$1,049	\$1,000	\$1,000	\$1,100	\$1,200
PRETAX PROFIT	\$7,108	\$6,603	\$6,207	\$6,826	\$6,398	\$6,679	\$6,404	\$6,560	\$6,190	\$7,200	\$10,600	\$13,389
% Sales	20.8%	18.4%	18.8%	20.3%	18.6%	18.9%	17.5%	17.3%	16.3%	18.5%	23.6%	26.7%
TAX PROVISION	\$1,990	\$1,575	\$502	\$2,310	\$1,663	\$1,632	\$739	\$1,107	\$1,300	\$1,512	\$2,226	\$2,812
Tax rate	28.0%	23.9%	8.1%	33.8%	26.0%	24.4%	11.5%	16.9%	21.0%	21.0%	21.0%	21.0%
ADJUSTED NET INCOME	\$5,118	\$5,028	\$5,705	\$4,516	\$4,735	\$5,047	\$5,665	\$5,453	\$4,890	\$5,688	\$8,374	\$10,578
Net Margin	15.0%	14.0%	17.3%	13.4%	13.8%	14.3%	15.5%	14.4%	12.9%	14.6%	18.6%	21.1%
DILUTED SHARES	32,757	32,598	31,994	31,865	30,907	30,826	30,731	30,654	31,000	31,500	33,000	33,500
EPS, ADJUSTED ⁽¹⁾	\$0.16	\$0.15	\$0.18	\$0.14	\$0.15	\$0.16	\$0.18	\$0.18	\$0.16	\$0.18	\$0.25	\$0.32
EPS, GAAP	\$0.16	\$0.15	\$0.18	\$0.14	\$0.15	\$0.16	\$0.18	\$0.18	\$0.16	\$0.18	\$0.25	\$0.32
ANNUAL VALUES:												
ANNUAL REVENUE				\$136,636				\$144,134				\$187,882
GROWTH Y/Y				8.7%				5.5%				12.5%
ADJUSTED NET INCOME				\$20,387				\$20,900				\$27,326
GROWTH Y/Y				12.6%				2.6%				36.1%
EPS, ADJUSTED ⁽¹⁾				\$0.63				\$0.68				\$1.12
EPS, GAAP				\$0.63				\$0.68				\$1.12
Book Value per share	\$6.15	\$6.39	\$6.77	\$6.67	\$6.46	\$6.45	\$6.76	\$6.81	\$6.89	\$6.98	\$7.27	\$8.29
Net Cash Per share	\$3.77	\$4.14	\$4.50	\$4.22	\$3.97	\$4.02	\$3.96	\$4.26	\$4.17	\$4.29	\$4.91	\$5.71

(1) Adjusted EPS excludes amortization of deferred stock comp and intangibles, and non-recurring gains and losses

Source: Company Filings, SG Cowen & Co.

Power Integrations



Cowen & Co.

Power Integrations Reconciliation of Adjusted Net Income to GAAP Net Income

POWI 02-Feb-06 December Year-End (\$000s)	2000	2001	2002	2003	2004	2005	Q1-E	Q2-E	Q3-E	Q4-E	2006E	2007E
Adjusted Net Income (1)		\$6,726	\$9,578	\$18,086	\$20,367	\$20,900	\$4,890	\$5,688	\$8,374	\$8,374	\$27,326	\$37,179
Amortization		-	-	-	-	-	-	-	-	-	-	-
Gains/losses on Investments		-	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-	-
Net Income, GAAP	\$19,765	\$6,726	\$9,578	\$18,086	\$20,367	\$20,900	\$4,890	\$5,688	\$8,374	\$8,374	\$27,326	\$37,179
Adjusted share count		28,991	29,503	31,812	32,414	30,792	31,000	31,500	32,000	32,000	31,625	33,250
GAAP share count												
EPS, GAAP	\$0.69	\$0.23	\$0.32	\$0.57	\$0.63	\$0.68	\$0.16	\$0.18	\$0.26	\$0.26	\$0.86	\$1.12

(1) Adjusted net income excludes amortization of deferred stock comp. and intangibles, and non-recurring gains and losses
Source: Company Filings, SG Cowen & Co.



Power Integrations

Power Integrations Statement of Cash Flows

POWI 02-Feb-06
December Year-End
(\$000s)

	2001	2002	2003	2004	2005E	2006E	2007E
Net Income (loss)	\$6,726	\$9,578	\$18,086	\$20,367	\$20,900	\$27,326	\$37,179
Adjustments to reconcile net income (loss) to cash provided by operating activities:							
Depreciation and amortization	6,944	6,684	6,846	6,880	6,830	8,350	9,394
Amortization of deferred compensation	41	147	135	-	-	-	-
Deferred income taxes	708	(718)	191	72	(10)	-	-
Deferred rent	441	284	(725)	-	-	-	-
Provision for A/R and other allowances	1,119	155	688	456	76	-	-
Tax benefit associated with employee stock plans	2,232	1,654	6,841	4,082	1,007	-	-
Stock compensation to non-employees	-	-	-	37	8	-	-
Changes in operating assets and liabilities:							
Accounts receivable	2,946	(3,553)	(2,492)	(2,360)	(1,334)	(7,983)	(2,473)
Inventories	(2,023)	8,594	(8,085)	(2,241)	6,913	(4,372)	(3,136)
Deferred Income Taxes	-	-	-	-	2,927	(206)	(150)
Prepaid expenses and other current assets	3,092	(146)	(2,909)	295	495	(389)	(283)
Accounts payables	(2,849)	3,086	191	694	(3,818)	1,171	856
Accrued Payroll and employee benefits	-	-	-	-	1,869	1,138	828
Taxes payable and other accrued	(2,386)	4,849	1,773	1,336	2,060	1,717	1,249
Deferred income on shipments to distributors	(768)	920	(153)	493	421	654	476
Cash provided by (used in) operating activities	\$16,223	\$31,534	\$20,387	\$30,111	\$38,344	\$27,407	\$43,941
Cash flow from investing activities:							
Capital expenditures	(7,629)	(4,510)	(37,787)	(8,135)	(4,504)	(5,010)	(5,636)
Purchases of securities	(30,023)	(42,325)	(6,210)	(29,182)	(6,806)	-	-
Sales and maturities of securities	42,998	25,173	33,037	19,270	11,271	-	-
Note to supplier	-	-	-	-	(10,000)	-	-
Cash provided by (used in) investing activities	\$4,619	(\$21,662)	(\$10,960)	(\$18,047)	(\$10,039)	(\$5,010)	(\$5,636)
Cash flow from financing activities:							
Payments related to capital lease	(678)	(441)	(233)	(41)	-	-	-
Proceeds receivable from stockholders	38	38	-	-	-	-	-
Proceeds from issuance of common stock	5,477	5,914	23,554	9,099	6,973	-	-
Repurchase of common stock	-	-	-	(11,797)	(28,305)	-	-
Cash provided by (used in) financing activities	\$4,837	\$5,511	\$23,321	(\$2,739)	(\$21,332)	\$0	\$0
Net change in cash and cash equivalents	\$25,679	\$15,383	\$32,748	\$9,325	\$6,973	\$22,397	\$38,305

SG Cowen Cash Flow Summary And Analysis	2001	2002	2003	2004	2005E	2006E	2007E
Cash flow from operations	16,223	31,534	20,387	30,111	38,344	27,407	43,941
minus net capital expenditures equals	(7,629)	(4,510)	(37,787)	(8,135)	(4,504)	(5,010)	(5,636)
Owners' cash flow ⁽¹⁾	\$8,594	\$27,024	(\$17,400)	\$21,976	\$33,840	\$22,397	\$38,305
	9.1%	25.0%	-13.8%	16.1%	23.5%	13.4%	20.4%
Investing adjustments	12,248	(17,152)	26,827	(9,912)	(5,535)	-	-
Financing adjustments	(7,411)	22,663	(3,507)	7,173	(\$32,361)	-	-
Net change in cash, cash equivalents, and securities	\$13,431	\$32,535	\$5,920	\$19,237	(\$4,056)	\$22,397	\$38,305
Beginning cash, cash equivalents, and securities	\$63,434	\$76,865	\$109,400	\$115,320	\$134,557	\$130,501	\$152,898
Ending cash, cash equivalents, and securities	\$76,865	\$109,400	\$115,320	\$134,557	\$130,501	\$152,898	\$191,203

(1) Owner's cash flow in 2003 includes an approximately \$30M CAPEX expenditure related to the purchase of the Company's San Jose facility. Absent this expenditure, Owner's cash flow in 2003 would have been approximately \$13M.

Source: Company Filings, SG Cowen & Co.



Cowan & Co.

Power Integrations

Power Integrations Balance Sheet

POWI 02-Feb-06 December Year-End	2001 Q4	2002 Q4	2003 Q4	2004 Q4	2005 Q4-A	Q1-E	Q2-E	Q3-E	2006E Q4-E	2007E Q4-E
Cash, cash equivalents, and securities	76,865	109,400	115,320	134,557	130,501	\$129,361	135,179	143,624	152,898	191,203
Accounts receivable, net	5,174	8,522	10,326	12,230	13,488	17,123	17,574	21,471	21,471	23,943
Inventories, net	23,622	15,028	23,113	25,354	18,441	21,796	22,585	22,813	22,813	23,948
Deferred income taxes	5,346	6,064	4,275	4,205	1,095	1,099	1,127	1,301	1,301	1,451
Prepaid expenses and other current assets	1,526	1,672	3,085	2,600	2,067	2,074	2,128	2,456	2,456	2,739
Total current assets	\$112,483	\$140,686	\$156,120	\$178,946	\$165,592	\$171,452	\$178,604	\$191,664	\$200,938	\$245,284
Property, plant and equipment, net	23,182	21,008	51,949	51,718	48,635	47,875	47,095	46,195	45,295	41,537
Intangible assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	1,598	1,596	4,274	4,274	4,274	4,274	4,274	4,274
Other assets, net	-	-	1,495	3,172	14,014	14,060	14,430	16,650	16,650	18,567
Total assets	\$135,665	\$161,694	\$211,162	\$235,432	\$232,515	\$237,661	\$244,403	\$258,783	\$267,157	\$309,663
Accounts payable	4,641	7,727	7,918	8,612	5,059	5,208	5,399	6,230	6,230	7,086
Accrued salaries and employee benefits	3,164	4,389	5,310	4,672	6,049	6,069	6,229	7,187	7,187	8,014
Income taxes payable and other accrued	1,604	5,228	4,610	6,578	9,130	9,160	9,401	10,847	10,847	12,096
Current portion of capitalized lease	440	233	41	-	-	-	-	-	-	-
Deferred income on shipments to distributors	1,798	2,718	2,565	3,058	3,479	3,490	3,582	4,133	4,133	4,609
Total current liabilities	\$11,647	\$20,295	\$20,444	\$22,920	\$23,717	\$23,927	\$24,611	\$28,397	\$28,397	\$31,806
Other liabilities	-	-	-	-	-	-	-	-	-	-
Capital lease and deferred rent liability	716	766	-	-	-	-	-	-	-	-
Total liabilities	\$12,363	\$21,061	\$20,444	\$22,920	\$23,717	\$23,927	\$24,611	\$28,397	\$28,397	\$31,806
Total stockholders' equity	\$123,302	\$140,633	\$190,718	\$212,512	\$208,798	\$213,734	\$219,792	\$230,386	\$238,760	\$277,857
Total liabilities and stockholders' equity	\$135,665	\$161,694	\$211,162	\$235,432	\$232,515	\$237,661	\$244,403	\$258,783	\$267,157	\$309,663

Source: Company Filings, SG Cowen & Co.

February 3, 2006

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Power Integrations

Power Integrations ROIC Analysis

POWI 02-Feb-06 (\$000s)	2001	2002	2003	2004	2005	2006E	2007E
Adjusted EBIT:	\$7,907	\$12,016	\$24,117	\$25,690	\$22,674	\$30,590	\$42,462
+Implied interest from operating leases	1,700	2,200	1,200	-	-	-	-
+Increase in LIFO reserve	-	-	-	-	-	-	-
+Increase in bad debt reserve	-	-	-	-	-	-	-
+Increase in net capitalized R&D	-	-	-	-	-	-	-
Amortization (adjusted EBIT excludes amortization)	-	-	-	-	-	-	-
Adjusted Operating Profit Before Taxes	\$9,607	\$14,216	\$25,317	\$25,690	\$22,674	\$30,590	\$42,462
Income tax expense:	\$2,930	\$4,103	\$7,033	\$6,377	\$5,141	\$7,264	\$9,883
- Increase in deferred tax liabilities	-	-	-	-	-	-	-
+ Increase in deferred tax assets	-	-	-	-	-	-	-
+ Tax benefit from interest expense	-	-	-	-	-	-	-
- Tax expense from interest income	(612)	(583)	(351)	(369)	(1,178)	(1,400)	(1,610)
- Taxes on non-operating income	-	-	-	-	-	-	-
+ Tax benefits from interest on leases	595	770	420	-	-	-	-
Cash Operating Taxes	\$2,913	\$4,290	\$7,102	\$6,008	\$3,963	\$5,864	\$8,273
NOPAT	\$6,694	\$9,926	\$18,215	\$19,682	\$18,711	\$24,726	\$34,189
Book value of common equity	\$123,302	\$140,633	\$190,718	\$212,512	\$208,798	\$238,760	\$277,857
+Preferred stock	-	-	-	-	-	-	-
+Minority interest	-	-	-	-	-	-	-
+Deferred tax liabilities	-	-	-	-	-	-	-
+LIFO reserve	-	-	-	-	-	-	-
+Accumulated amortization expense	-	-	-	-	-	-	-
+Interest-bearing short-term debt	-	-	-	-	-	-	-
+Long-term debt	-	-	-	-	-	-	-
+Capitalized lease obligations	-	-	-	-	-	-	-
+PV of operating leases (1)	24,286	31,429	17,143	-	-	-	-
-Excess cash, cash equivalents & securities	(56,002)	(101,522)	(96,633)	(114,235)	(116,743)	(130,423)	(165,770)
-Deferred tax assets	-	-	-	-	-	-	-
Invested Capital	\$91,586	\$70,540	\$111,228	\$98,277	\$92,055	\$108,337	\$112,087
Return On Invested Capital	7.3%	14.1%	16.4%	20.0%	20.3%	22.8%	30.5%

Source: SG Cowen & Co.



Cowen & Co.

Power Integrations

Power Integrations Ratio Analysis

POWI 02-Feb-06							
December Year-End							
Per Share:	2001	2002	2003	2004	2005	2006E	2007E
Cash flow from operations	\$0.56	\$1.07	\$0.64	\$0.93	\$1.25	\$0.87	\$1.32
Cash, cash equivalents, and securities	\$2.65	\$3.71	\$3.63	\$4.15	\$4.24	\$4.83	\$5.75
Book value	\$4.25	\$4.77	\$6.00	\$6.56	\$6.78	\$7.55	\$8.36
Tangible book value	\$4.25	\$4.77	\$6.00	\$6.56	\$6.78	\$7.55	\$8.36
Liquidity Ratios:							
Current ratio	9.7	6.9	7.6	7.8	7.0	7.1	7.7
Quick ratio	7.6	6.2	6.5	6.7	6.2	6.3	6.9
Leverage:							
Cash to equity	62.3%	77.8%	60.5%	63.3%	62.5%	64.0%	68.8%
Assets to equity	110.0%	115.0%	110.7%	110.8%	111.4%	111.9%	111.4%
Assets to equity (excl. cash)	126.6%	167.4%	127.1%	129.4%	130.3%	133.1%	136.7%
Turnover:							
Asset turnover	0.7x	0.7x	0.6x	0.6x	0.6x	0.6x	0.6x
Asset turnover, excluding cash	1.6x	2.1x	1.3x	1.4x	1.4x	1.5x	1.6x
Accounts receivable turnover	18.4x	12.7x	12.2x	11.2x	10.7x	7.8x	7.8x
Inventory turnover	2.2x	4.0x	2.7x	2.8x	3.9x	3.7x	3.7x
Accounts payable turnover	11.0x	7.9x	7.9x	8.3x	14.4x	13.4x	13.5x
Cash Conversion Cycle:							
Days sales outstanding	20	29	30	33	34	47	47
Days inventory	168	90	134	130	92	100	99
Days payable	33	46	46	44	25	27	27
Cash conversion cycle (days)	155	73	118	118	101	120	118
Pre-Tax Return On Assets:							
Operating margin (EBIT/Sales)	8.4%	11.1%	19.2%	18.8%	15.7%	18.3%	22.6%
x Asset turnover (Sales/Assets)	0.7x	0.7x	0.6x	0.6x	0.6x	0.6x	0.6x
= Pre-Tax ROA	5.8%	7.4%	11.4%	10.9%	9.8%	11.5%	13.7%
x Tax burden (NI/EBT)	70%	70%	72%	76%	80%	79%	79%
= Return On Assets	4.1%	5.2%	8.2%	8.3%	7.8%	9.0%	10.8%
Pre-Tax Return On Assets (excl. cash):							
Operating margin (EBIT/Sales)	8.4%	11.1%	19.2%	18.8%	15.7%	18.3%	22.6%
x Asset turnover (Sales/Assets), excluding cash	1.6x	2.1x	1.3x	1.4x	1.4x	1.5x	1.6x
= Pre-Tax ROA	13.4%	23.0%	25.2%	25.5%	22.2%	26.8%	35.8%
x Tax burden (NI/EBT)	70%	70%	72%	76%	80%	79%	79%
= Return On Assets, excluding cash	9.4%	16.1%	18.1%	19.4%	17.8%	21.2%	28.3%
Return On Equity:							
x Operating margin (EBIT/Sales)	8.4%	11.1%	19.2%	18.8%	15.7%	18.3%	22.6%
x Interest benefit (EBT/EBIT)	122%	114%	104%	104%	115%	113%	111%
x Tax burden (NI/EBT)	70%	70%	72%	76%	80%	79%	79%
x Asset turnover (Sales/Assets)	0.7x	0.7x	0.6x	0.6x	0.6x	0.6x	0.6x
x Leverage (Assets/S.E.)	110%	115%	111%	111%	111%	112%	111%
= ROE	-5.5%	-6.8%	9.5%	9.6%	10.0%	11.4%	13.4%

Source: SG Cowen & Co.



Power Integrations

Addendum**COMPANIES MENTIONED IN THIS REPORT**

Ticker	Company Name
POWI	Power Integrations

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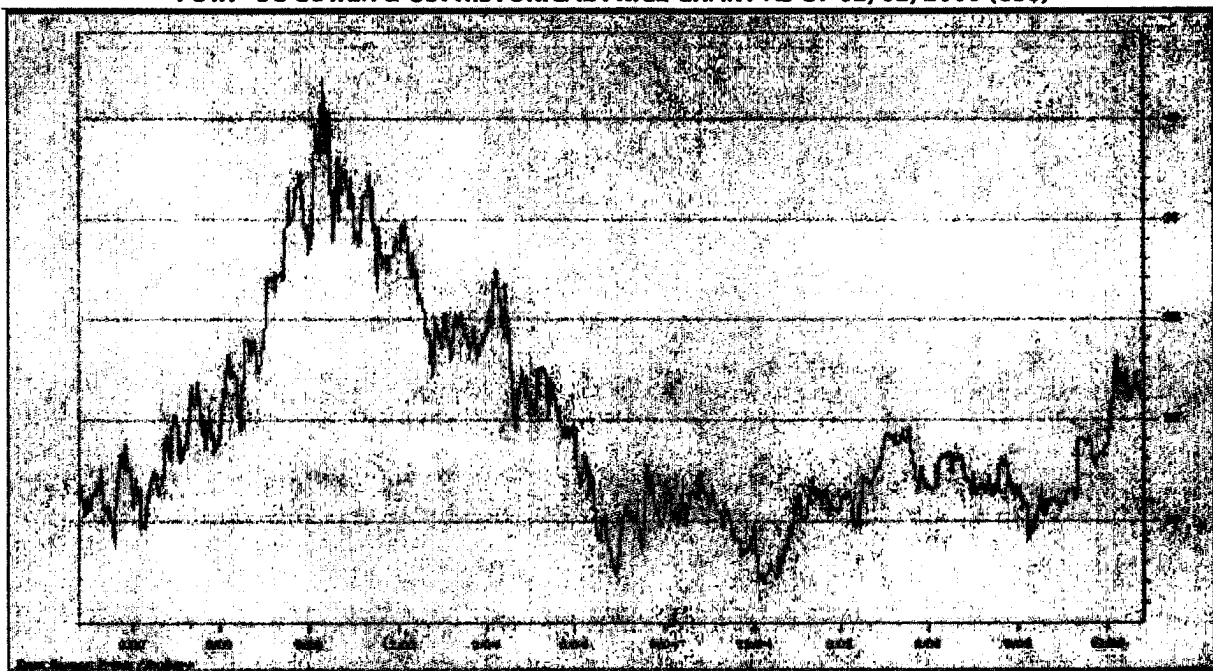
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**Power Integrations****SG COWEN & CO. RATING DEFINITIONS PRIOR TO 3/1/2004**

Rating	Definition
Strong Buy (1)	Stock expected to outperform the S&P 500 by over 25%
Outperform (2)	Stock expected to outperform the S&P 500 by 10-25%
Market Perform (3)	Stock expected to out/underperform the S&P 500 by +/-10%
Underperform (4)	Stock expected to underperform the S&P 500 by at least 10%

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

POWI—SG COWEN & CO. HISTORICAL PRICE CHART AS OF 02/02/2006 (US\$)

Initiated on 07/14/04;

SG Cowen & Co., LLC eliminated price targets on 09/09/02;

SG Cowen & Co., LLC eliminated investment ratings on 03/01/04.

CERTIFICATE OF SERVICE

I hereby certify that on the 21st day of February, 2006, the attached **NOTICE OF DEPOSITION AND SUBPOENA OF SHAWN SLAYTON PURSUANT TO FEDERAL RULE OF CIVIL PROCEDURE 45** was served upon the below-named counsel of record at the address and in the manner indicated:

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